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Development NGOs: Basic Facts

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Development NGOs: Basic Facts¹

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Abstract

This paper systematizes the results of the empirical literature on development non-governmental organizations (NGOs), drawing both from quantitative and qualitative analyses, and constructs a set of basic facts about these organizations. These basic facts concern the size of the development NGO sector and its evolution, the funding of NGOs, the allocation of NGO aid and projects across beneficiary countries, the relationship of NGOs with beneficiaries, and the phenomenon of globalization of development NGOs.

Keywords: non-governmental organizations, aid effectiveness, non-profits, charitable giving, North-South partnership.

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Introduction

This paper systematizes the results of the empirical literature on development non-governmental organizations (NGOs), drawing both from quantitative and qualitative analyses, and constructs a set of basic facts about these organizations. The literature on NGOs is vast and belongs to several disciplines (political science, economics, anthropology, sociology, and more). Moreover, an NGO is a wide category that includes extremely diverse organizations that carry out projects in even more diverse contexts. This makes the attempt of reviewing the empirical literature and highlighting the existing regularities a challenging task.

The main motivation behind this paper is two-fold. On the one hand, development economists working on the questions of design of decentralized aid (via NGOs) find themselves without a systematized set of facts that a good theoretical model of decentralized aid should be able to match/explain. We hope to help those researchers by providing them with such a set of facts. On the other hand, colleagues in empirical development studies branch would benefit from having a coherent view of the empirical knowledge on this subject accumulated so far, so as to be able to focus – in their data collection and analysis efforts – on topics that have been relatively under-studied and where the lack of data “bites” most.

We focus throughout the paper on development NGOs. There is no unique definition a non-governmental organization. The main characteristics, on which most authors agree, are: (i) acting in a legally independent way from the State, (ii) being founded by private initiative, and (iii) having a non-profit legal status (i.e. being barred from distributing profits to its founders or members). Often (but not always; the notable exception is advocacy NGOs), these organizations are public-good providers. Some authors (e.g., Murdie and Davis 2012) also add the characteristic of having an open membership. The working definition of a development NGO that we adopt in this paper is thus being a non-profit and non-governmental aid intermediary that provides a public good and channels donors’ funds to projects in developing countries.

Intermediation of aid is thus a key role that NGOs play. In fact, as Fowler (1992) underlines, “Intrinsic to development NGOs is the fact that the costs of the development services they provide are not met by income from the clients they serve – the poor, marginalized, oppressed and deprived inhabitants of the South.” (p. 10)

Advocacy NGOs are a specific category of international NGOs that have been analyzed in the economic literature. In this paper, we leave these contributions mostly out, since our main focus is on the organizations engaged in public good provision; however, we note some of the existing evidence on advocacy activities of NGOs when discussing the NGO media presence (see below).

Another caveat concerns the literature on the relationship between development NGOs and the State in the recipient country. Political scientists contributed much to the analysis of this issue, both through their field studies on civil society and in analyses of development NGOs as actors of change in the context of decentralization of aid. We

believe that this literature is deserves a separate survey and thus consider it beyond our focus in this paper.

We group the basic facts on development NGOs into five sections. Section 1 discusses the size of the development NGO sector and its evolution. Section 2 analyzes the funding of NGOs, while Section 3 concentrates on the allocation of NGO aid and projects across beneficiary countries. Section 4 discusses the relationship of NGOs with beneficiaries. Finally, Section 5 analyzes the phenomenon of globalization of development NGOs. A brief conclusion closes the paper.

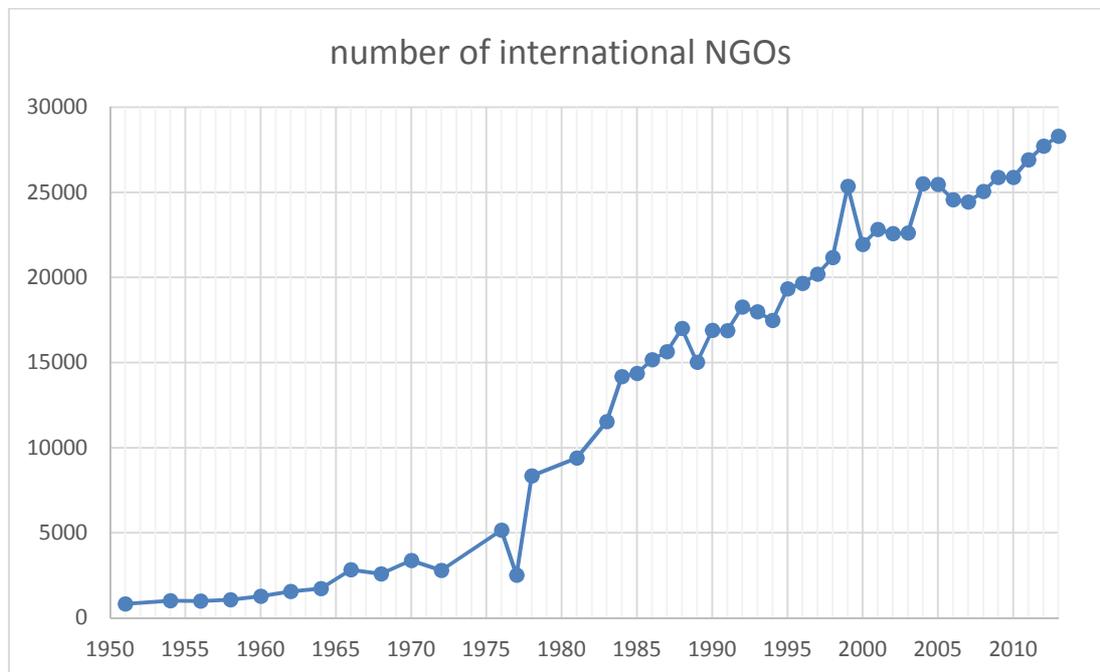
1. The size of the development NGO sector

Fact 1. From the 1950s, there has been a large increase in the size of the development NGO sector, both in terms of the number of organizations and their total revenues. This pattern is driven by increases in the flow of both public and private funds. The visibility and media presence of NGOs has also increased considerably.

Since the 1950s, the NGO sector has experienced a strong increase in size, as shown in Figure 1 below.

Figure1. Number of international NGOs since 1950

(Source: authors' calculations using *Yearbook of International Organizations*)



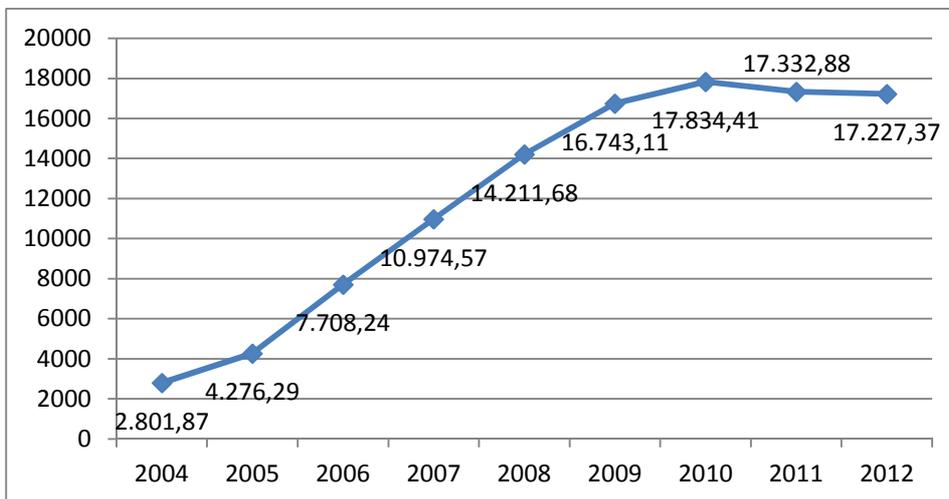
Barro and McCleary (2007) use the US Agency for International Development data that include private and voluntary organizations registered with the USAID. For the overall period 1939-2004, they identify a first spell of growth before the Second World War (up to 424 organizations in 1941), a decline in the number of NGOs during the war (mainly

because of mergers), followed by an almost stable increase (up to 510 organizations in 2004). The authors also provide evidence of an increase in the NGOs' revenues: the average rate of growth of total revenues has been of 5.8 per cent per year. The real revenue for all registered NGOs, after a decrease between 1945 and 1952, grew from 0.26 billion USD in 1952 to 6.8 billion USD in 2004.

The OECD data on the disaggregation of the official development assistance (ODA)¹ shows an increase of the amount of public aid channeled through NGOs that has been going on since 1980, with a first spurt in 1984-1985². If one looks only at core contributions to NGOs, one sees that these amount to more than 2 billion USD in 2004, out of the total 100 billion USD of ODA (i.e. 2.8 per cent). This share starts to decline in 2008, amounting to 1.6 per cent in 2011. Nevertheless, there is clear evidence that governments are becoming ever more reliant on NGOs for their poverty programming, emergency aid, and food aid (Smillie 1995). In other words, to properly calculate the amounts of public aid channeled through the NGO sector, one has to factor in the public aid projects where NGOs are implementing and executing agencies. Summing up both aid "to" NGOs and "through" NGOs³, we observe that the NGO-channeled aid is increasing even after 2008, although at a slower pace (as can be seen on Figures 2 and 3).

Figure 2. Total amount of OECD aid channelled through NGOs (both core contributions and public mandates to NGOs)

(Note: Gross disbursements, constant prices, millions of 2011 US dollars. Source: authors' calculations using OECD data)



If one looks at these amounts as a share of total ODA, one sees that since 2004 this share has grown massively, representing more than 13 per cent of ODA in 2012. There was a four-fold increase in this share from 2004 and 2012, and the steepest increase occurred before 2007. As argued by Werker and Ahmed (2008), this might in part be explained by increasing outsourcing of implementation of government-financed services to the NGO sector.

Figure 3. Share of OECD aid channelled through NGOs (both core contributions and public mandates to NGOs) in total ODA

(Source: authors' calculations using OECD data)

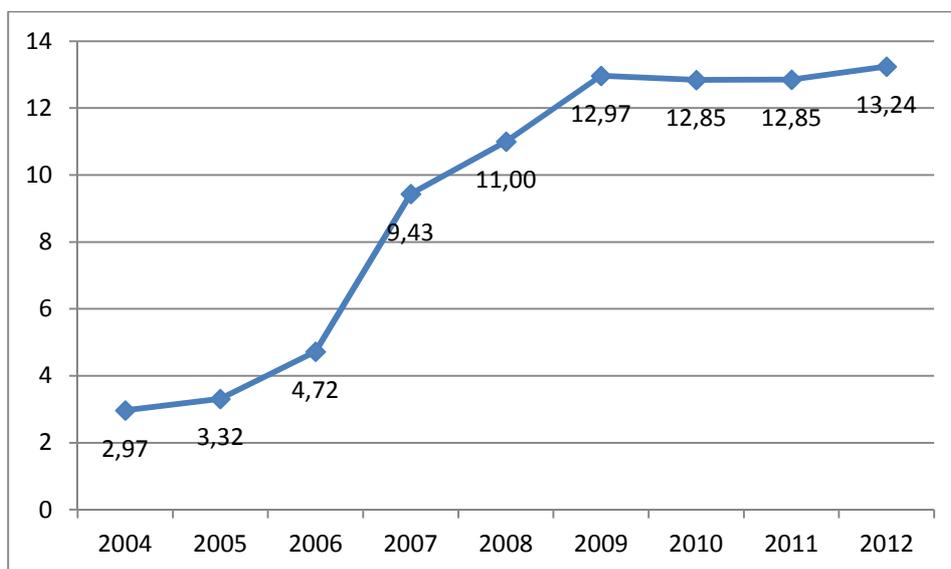


Table 1. Share of aid channelled through NGOs in total ODA, in selected OECD countries

(Source: authors' calculations using OECD data)

	2005	2006	2007	2008	2009	2010	2011	2012
Canada	0,10	1,11	0,88	7,09	20,08	19,36	18,60	18,68
France	.	1,06	1,08	1,19	1,44	1,70	1,38	1,51
Germany	2,74	8,08	8,43	8,51	11,88	10,01	9,32	9,90
Ireland	0,68	.	35,88	37,35	36,61	38,90	38,06	38,64
Italy	2,69	1,38	8,24	5,97	11,97	9,10	5,72	9,33
Luxembourg	2,78	0,51	2,80	29,32	31,77	26,92	28,51	29,50
Netherlands	17,51	31,25	30,97	32,17	29,85	31,40	32,53	31,41
Spain	0,41	0,37	0,10	27,15	19,92	21,18	27,75	39,30
Sweden	12,61	23,02	24,79	24,32	25,65	27,85	27,10	28,39
Switzerland	7,19	27,90	30,93	29,05	27,28	28,22	24,82	26,01
United Kingdom	0,00	0,00	13,09	12,52	13,85	13,95	19,23	21,33
United States	6,10	7,40	16,50	18,17	24,44	24,84	22,91	24,12

Disaggregated these numbers by donor country, one obtains a more complex picture, as can be seen in Table 1.

Several interesting patterns emerge. There is one group of countries whose contribution to NGOs as a share of ODA was already important in 2005 and that see a steep increase between 2006 and 2007 (the Netherlands, Sweden and Switzerland). The United States is similar to these countries in this respect. However, there is a specificity of the U.S. case: until 2006 the United States devoted to NGOs a share of total ODA that was substantially lower than the one of the Nordic countries (but also of Greece, Belgium and Germany). Another specific trait of U.S. aid is the relatively large proportion of NGO own funds in NGO-related foreign aid⁴. Some countries (Canada, Luxembourg, Ireland, Spain and, to some extent, UK) exhibit a sharp increase, from almost zero to fairly high shares, around 2008 and 2009. This is not due to big changes in the denominator (total ODA), but it may be due to some change in accounting procedures or in a real sharp change in the aid policies. France is the country that keeps having a low share of aid channeled through NGOs (this also true for Japan, not reported in the table).

Riddell and Robinson (1995) calculated that the worldwide resources devoted to development projects through NGOs, including unconditional contributions and contributions to NGOs as subcontractors of public agencies, raised from 0.9 billion USD in 1970 to 6.3 billion USD in 1993. Similarly, Werker and Ahmed (2008) report World Bank data indicating that projects involving civil society raised from 6 per cent (of all the World Bank projects) in the late 1980s to 70 per cent in 2006.

Evaluating the impact of this increase in public funds on NGO activities is difficult and direct evidence is missing. The main analytical problem is fungibility of aid money. It is difficult to properly identify the effect of public funds on the final budget allocation of the NGOs, since money has multiple possible uses and a contribution aimed at a particular project may free up resources to other uses. The public funding may indeed change the allocation of resources that would have otherwise been used in different ways. In the absence of a valid counterfactual, one cannot clearly identify the effect of varying public funding on the behavior of NGOs. In order to address the perceived fungibility problem, indeed, during the 1980s and the 1990s there has been an emergence of special financial “windows” (Smillie, 1995) for NGOs to get funded on specific themes and issues (AIDS, women empowerment,...).

A related problem is that NGOs might have been induced to become public service contractors. This greater financial dependence led to a decrease of operational independence and, in some cases, of advocacy activities from the part of NGOs that were expecting to get public funds. In reaction to this development, certain organizations (e.g. Oxfam and some Scandinavian NGOs) chose to voluntarily restrict the share of public funds below a maximum threshold and to increase donor diversification.

The increase in private donations to charities (including development NGOs) is another evidence of the last decades. This phenomenon has been documented for the United Kingdom by Atkinson et al. (2012). They look at the top 200 development charities in terms of donations: in the period between 1978 and 2004, the total amount of donations increased from £116 million to £683 million (implying the average annual rate growth of 7.4 per cent). This is a quite a remarkable increase, especially if compared with a much smaller increase of ODA (6 times increase in donations, as compared to 1.5 times increase in ODA), as one can see from the following figure.

Figure 4. Total donations to the top 200 development charities in the United Kingdom

(Source: Atkinson et al, 2012)

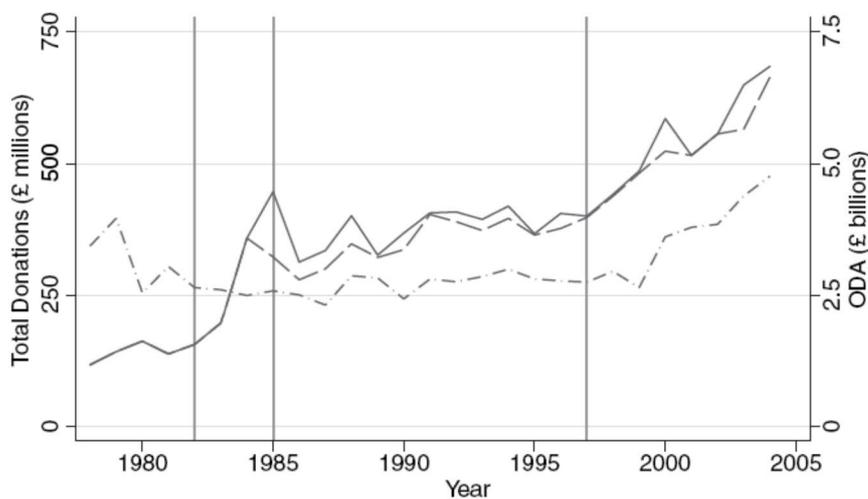


Fig. 2. Total donations to development charities (—, donations for development; — —, donations for development without Comic Relief and Band Aid) among the top 200 fund-raisers and ODA (- · - ·): donations are as defined in Table 3; ODA figures are from Department for International Development (2007), Table 7; both donations and ODA are put into 2007 prices by using the retail prices index (all items) which is available from <http://www.statistics.gov.uk/rpi/>

This increase in donations had different phases. A boost between 1982 and 1985 (rate of growth of donations to development charities of 42 per cent) was probably linked to the huge campaign calling for relief for the Ethiopian famine in 1984-1985. After this sharp increase, a big decline in 1986 followed (nevertheless, donations did not fall back to the 1982 level). The growth rate in donations then was barely 2 per cent per annum. A new increase occurred in 1997 (probably linked to the victory of Labour Party at the general elections and to the Millennium Development Goals campaign), and the growth rate in donations between 1997 and 2004 raises to 8 per cent.

Moreover, the overall increase in donations to development charities is much greater than the increase in income over the same period of time. Another figure provided by the U.K. data is that, in terms of donations, development NGOs are larger if compared with other charities (however, the average rate of growth of donations to the two types of charities is quite similar).

The main proposed determinants of private donations to development NGOs are income (of donors) and fundraising (by NGOs). Atkinson et al. (2012) find that donations are responsive to changes in income with a unitary elasticity (which is higher than the responsiveness of donations to non-development charities). This implies that in the period between 1978 and 2004, income growth accounted for about one-third of growth in donations. The effect of fundraising is also substantial: an extra £1 of fundraising expenditures leads to £2.33 additional donations on average. This figure is confirmed by the existing literature in public economics on returns to charities' fundraising activities, where most studies find that a dollar of fundraising expenditures leads to more than one-dollar of donations (see, for instance, Okten and Weisbrod, 2000, and Andreoni, 2006, for a detailed review). Charities, therefore, are not maximizing their budgets, but might act as "satisficers": they fix certain revenue goals and stop once these goals are reached.

Nunnenkamp and Ohler (2012) study the determinants of donations to U.S.-based NGOs (from the USAID registry). They also find a positive (but a much smaller) effect of fundraising expenditures, reporting that doubling of fundraising expenditures gives rise to a 20 per cent increase in private donations. Additional findings of these authors are: the complementarity between public funding and private donations; evidence that donors do not use available information on efficiency measures of NGO activity or on the preference alignment (with donors' own preferences); and no correlation of donations with the "efficiency price" of NGO aid⁵ and with the degree of specialization of NGOs. In their analysis, an important determinant of private donations turns out to be the donors' possibility to designate funds to a specific sector of activity (which is a measure of NGOs "tying their hands" on the use of donors' money).

Finally, there is evidence of increased advocacy activities and "watchdog" role of NGOs, which, in turn, led to an increased visibility and presence in the media. The independence (at least formal) of NGOs from governments has always been considered as an advantage when concerning their role as independent monitors or watchdogs of the behavior of private for-profit or governmental actors, both in developing and developed countries. While precise measures of the evolution of media presence and watchdog activities by NGOs are hard to find, an indication of their rising importance for the corporate world is the twenty-fold increase in the number of citations referring to NGOs in *Financial Times* over the last ten years (Yaziji and Doh 2009). Similarly, Harrison and Scorse (2010) estimate that the number of articles regarding child labor – one of the key issues tackled by advocacy NGOs – has increased by 300 per cent and the number of articles on sweatshop activities has increased by more than 400 per cent in the last decade. This shows that the role of NGOs as 'civic regulators' of multinational firms has become prominent, so as to possibly affect entire industries (e.g. apparel, textile, mining), and not just individual firms. This is confirmed, for example, by a recent study of Harrison and Scorse (2010) for textile, footwear, and apparel (TFA) industries in Indonesia, and by the studies by Doh and Guay (2004) and Yaziji and Doh (2009) that list twelve international codes of corporate conduct (at industry level) on labor and environmental issues, in which NGOs played a key role as promoters and enforcers.

2. The funding of development NGOs

Fact 2. NGOs increasingly compete for funding; the effect of competition on efficiency and labor composition of NGOs is ambiguous. Most funds are collected by relatively few NGOs. NGOs also compete with for-profit enterprises and specialize/differentiate from them.

There is evidence of an increased competition for donations among development NGOs, whose effects are addressed in several studies. Increased competition decreases marginal benefits of fundraising (as predicted by the theoretical model by Aldashev and Verdier, 2010). Ly and Mason (2012) show this using data from the Kiva micro-lending platform⁶: they find that increasing competition increases the time needed to complete funding and that this effect is greater for projects that are closer substitutes (i.e. highly similar). On the other hand, efficiency-enhancing effects of competition are stressed by Nunnenkamp and Ohler (2012), using U.S. data. They find that management and administrative costs are relatively lower for NGOs that are subject of greater competition.

Negative outcomes of increased competition are indirectly underlined by the studies that analyze the impact on beneficiaries (we discuss them in more detail later): higher competition leads to higher need for visibility and for maximizing the probability of project success (Fruttero and Gauri, 2005; Dreher et al, 2012; Smillie, 1995). One consequence of this could be the lower probability of project location in the poorest areas where the likelihood of project success is lower.

While NGOs are well aware of the harmful effects of excessive competition for funds and the gains foregone due to the lack of coordination are substantial (Edwards and Hulme 1996; Ebrahim 2005; Murdie and Davis 2012), the attempts to self-regulate and to coordinate fundraising in the NGOs sector are relatively rare. The few successful examples are mostly found in case of humanitarian emergencies, such as joint fundraising appeals (Smillie 1995). More generally, the self-regulation mechanisms in the non-profit sector take different forms and this varying institutional architecture crucially influence the likelihood of successful coordination, as argued by Prakash and Gugerty (2010), Aldashev et al. (2014), and Similon (2014).

The existing few studies of market structure show that the NGO sector exhibits a relatively high concentration of donations in few big NGOs. Barro and MCCleary (2007), looking at U.S. data, claim that after 1941, rising real NGO revenues concentrated in an ever smaller number of organizations. Atkinson et al. (2012), using the data from the U.K., find that about 50 per cent of donations are concentrated in the four biggest NGOs (although the market concentration declined since the 1980s, when the same share was around 70 per cent). Concerning Southern NGOs, one finds the same concentration effect. Barr et al. (2005) find that three large Ugandan NGOs receive half of the total revenues of the entire sample of local NGOs in Uganda, and that 30 NGOs account for 90 per cent of total revenues. Funds from international NGOs and other donors are more concentrated than revenue from business income and fees paid by beneficiaries. A possible reason stated by the authors for the Ugandan case is that because of high screening costs, donors choose to concentrate funds in a small number of NGOs they have learnt to trust. Moreover, 30 per

cent of the NGOs in the Ugandan sample never received a grant: most of them never applied for funding, mainly because of administrative difficulties.

Competition for funds also affects the selection of workers into the development NGO sector and interacts with some specific features of this sector. These are mission-oriented organizations, where performance measurement is difficult, donors and beneficiaries are located far from each other. Moreover, given that these are non-profit organizations, there is no possibility/threat of take-over in case of poor performance. This implies that the issues of who works in NGOs and who becomes entrepreneur in this sector are of crucial importance for its performance. To the best of our knowledge, there is virtually no empirical literature on labor composition in development NGOs, in terms of skills and motivation of workers. Some interesting features are highlighted by Smillie (1995): he argues that increased competition for funds pushed development NGOs to professionalize and thus to call for skilled employees, namely on fundraising activities. A problem raised by the author is the tendency to lower salaries, which risks attracting the “amateurs” instead of the professionals. One of the reasons of low salaries is considered to be the need to show to the public and to the donors that a small proportion of donations is used to cover administrative and running costs. Concerning the entrepreneurial side, Smillie (1995) highlights the phenomenon of the “guru syndrome” among the leaders, i.e. the dependence of the success of the organization on the presence of a single charismatic leader.

On the side of local southern NGOs, some information can be found in the Ugandan dataset (Barr et al. 2005): most of the labor force in the surveyed NGOs are volunteers; skilled workers account for 32 per cent of part-time and 11 per cent of full-time workers. An important issue in NGO composition is that of leadership: NGO leaders in Uganda have above-average education and experience and come mainly from middle-class families. NGO leadership seems to be a part-time occupation, mainly because grants are volatile and unpredictable, thus the individuals acting as leaders find it too risky to rely only of those grants as sources of income.

A much larger literature is available on the employment in charities and mission-oriented organizations (that serve as an empirical basis for the key theoretical contributions on motivated labor, e.g. Akerlof and Kranton, 2005; Besley and Ghatak, 2005; François, 2003; François, 2007). Employees in these organizations often accept lower wages than in comparable for-profit sectors and display higher intrinsic motivation for the task and higher mission-match with the employer organization. Light (2003), using a survey on human services workforce⁷ carried out in the U.S. in 2002, finds out that 67 per cent of respondents feel that pay is low and an even larger share of respondents highlights the psychological burdens of the tasks performed. At the same time, 98 per cent state that helping people was important consideration in taking up their job. Depedri et al. (2010) find similar results on a sample of Italian social enterprises. They measure the determinants of job satisfaction and find that average satisfaction is relatively high for all the dimensions considered, except for wage, career opportunities and participation in decision making.

A related question is the responsiveness of employees in public-service jobs to different classes of incentives. Evidence on the responsiveness to monetary incentives is mixed. On the one hand, Duflo et al. (2012) find a positive effect of pecuniary incentives on reducing teachers' absenteeism in rural India. On the other hand, Fryer (2011) finds no effect of monetary incentives for teachers on students' outcomes in a sample of schools in New York City.

Going back to development NGOs, there is some evidence that they share some ground and compete for public funds with for-profit firms in the development field. Werker and Ahmed (2008) cite data on USAID contracts in 2001 showing that 10 billion USD were awarded to for-profit firms and 7 billion USD to NGOs. Huysentruyt (2006) studies a dataset from DFID (UK development agency) contracting out development programs. She finds that 17 per cent of tenders exhibit the participation of NGOs only, in 36 per cent of cases, NGOs compete for the DFID contracts with for-profit firms, and in 47 per cent of tenders only for-profit firms participated. Importantly, however, there is also evidence of specialization and differentiation of NGOs. Werker and Ahmed (2008) note that for-profit firms tend to compete for projects with a big infrastructure component, while NGOs intervene more frequently in projects at the grassroots level. Similarly, Huysentruyt (2006) finds that the NGOs dominate in areas with a higher public-good component of the service delivered. The prevalence of NGOs when government delegates the provision of public goods is coherent with the seminal model of Besley and Ghatak (2001). In their model, in case of public-good provision, it is efficient that project ownership is held by the agent that has a higher valuation of the project (i.e. has the higher payoff in case of project realization). Indeed, project valuation turns out to be the major determinant of the efficient organizational form unless cost saving issues are dominant. The preference of governments for NGOs in public good provision is consistent with the fact that, when performance is difficult to monitor (and thus to contract upon), project valuation (that is commitment to the well-being of beneficiaries as the main goal) is crucial in determining to whom the responsibility of provision is given.

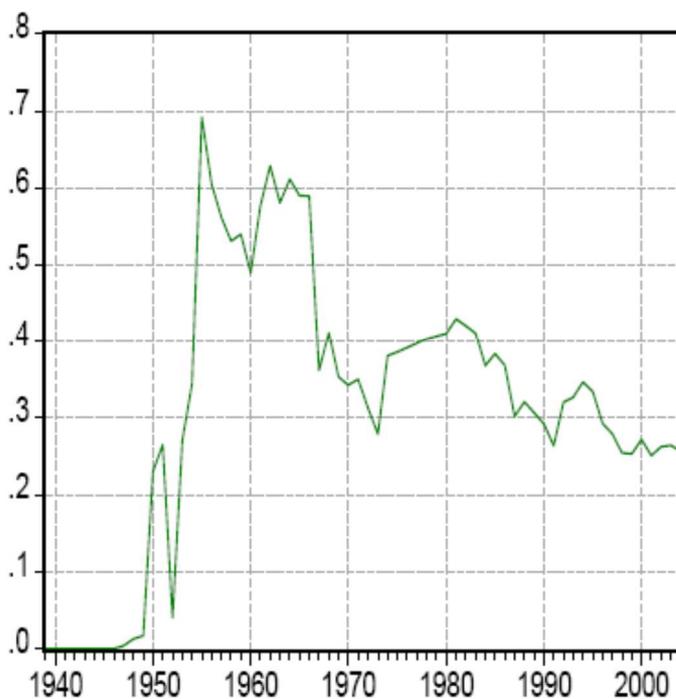
Fact 3. In certain contexts, NGOs' own funds increasingly dominate public contributions, while in others contexts the opposite is true. Both crowding-in and crowding-out of private donations by public funds is present; however, in the case of Northern development NGOs, most evidence supports the former.

The evidence from USAID data between 1961 and 2004 (Werker and Ahmed, 2008) shows that public funding to NGOs increased as a share of total US aid, but decreased as a share of NGO budget. Moreover, the increase of private contributions was slower than the increase in total NGO revenues. Thus, the relative importance of "non-traditional" forms of fundraising (e.g. donations in kind) and of fees-for-services increased substantially. Figures from the 2006 USAID report show that on average 25 per cent of the total budget of registered NGOs comes from public funding. The remaining 75 per cent comes from private sources; somewhat surprisingly, among these, corporations play only a minor role. Dreher et al. (2012) report similar findings for Swiss NGOs: the average annual amount of

Swiss NGOs' own funds is almost 6 times the average amount of contributions from public funds (276 million USD against 46 million USD). One should note, however, that the data that the authors use does not contain contracts where NGOs are executors of government programs. The predominance of private funds is also highlighted by Barro and McCleary (2007) on a sample of U.S. NGOs between 1939 and 2004: on average over the period, almost 80 per cent of NGO revenues comes from private sources. The same authors show (see Figure 5) that from the 1960s there is a negative trend in the federal share of NGO revenues in the United States.

Figure 5. Federal share of “private and voluntary organizations” registered with USAID in the United States

(Source: Barro and McCleary, 2007)



A very different finding is reported in Edwards and Hulme (1996): they argue that (in other contexts) NGOs are increasingly dependent on official aid: from mid-1980s to mid-1990s the maximum level of public financial dependence among the five largest British development NGOs increased from 15 per cent to 52 per cent (while the lowest level increased from 7 per cent to 18 per cent). In Scandinavia, the Netherlands and Canada, government grants make up between 50 per cent and 90 per cent of the budgets of major NGOs. Fowler (1991) finds evidence going in the same direction in OECD data from 1975 to 1988: the growth of NGO income from public sources has been higher than that from donations. Over this period, the former has increased three-fold, whereas the second only two-fold. For instance, in 1984 almost 60 per cent of Canadian NGOs obtained more than half of their funds from the government (compared with 48 per cent of organizations in

1980). Nevertheless, in 1988 the total amount of donations raised by NGOs for development interventions (4.2 billion USD) was greater than the amount of public funds (2.3 billion USD), in line with findings for the U.S. case.

These diverging results pose interesting questions for further research⁸. Part of the explanation for this divergence might be driven by country-specific factors. For example, policies towards charities and development NGOs in the U.S. might have changed in the opposite direction, as compared to the Netherlands, Canada, or Scandinavia. This would be consistent with findings by Koch (2007), which reports that dependency on public funds are high for all NGOs⁹ except for the U.S. ones, and with the observation by Smillie (1995) that certain countries try to keep the ratio of public funds to NGO own funds below 50 per cent (e.g. the U.K.), while other countries (Norway, Sweden) provide between 80 to 100 per cent funding for NGO programs. The OECD data, presented by Fowler (1991), provide a picture of overall higher amount of private funds, but with a public component that is growing faster than the private one.

Focusing on NGOs in the South, some studies (Semboja and Therkildsen, 1995; Barr et al. 2005) find that the bulk of funding comes from international NGOs and bilateral donors. For instance, using the Ugandan sample, Barr et al. (2005) show that in 2001 grants received from international NGOs account for nearly the half of total revenues, and the second most important source of funding are grants from bilateral donors (and the third source is local government). Using a mixed sample of European, Latin American, and Eastern European NGOs, Salamon and Anheier (1996) decompose the sources of revenues as follows: 43 per cent from government support, 47 per cent from private fees and payments, and only 10 per cent from private charitable giving.

The relationship between private and public funding is, nevertheless, quite complex. Barro and McCleary (2007) find, using the U.S. panel data for 1939-2004, that these two sources tend to be complementary. More precisely, revenue from the federal government or from international organizations works as a “magnet” for attracting private funds: the higher are public or international-organization contributions, the higher is the rate of growth of private donations in the following period. The amount of federal funds, on the contrary, is not correlated with its rate of growth. The complementarity between public funds and private donations is also highlighted by Nunnenkamp and Ohler (2012), again using the U.S. data: more public funding and non-donative private revenues increase the private donations an NGO receives.

Interestingly, this evidence seems to contradict previous findings on public grants to charities (broadly defined) crowding out private donations (e.g. Payne, 1998; see Andreoni, 2006, for a detailed survey). Some earlier literature, mainly on charities in sectors different from development, explains that donors/taxpayers see tax-based public grants as a substitute for their individual donations. The seminal paper by Andreoni and Payne (2003), using the 1982-1998 U.S. dataset, also finds evidence of crowding out, but based on a different underlying mechanism: an increase in government contributions leads to a decrease of private funding because of the reduction of fund-raising expenditures.

Fafchamps and Owens (2009) study crowding in/out of local private sources of income (fees, donations and voluntary work) by external grants on the above-mentioned sample of Ugandan NGOs. They find a negative relationship between the two sources (thus favoring the crowding-out hypothesis) and claim that relationship is due to a selection effect: an NGO that receives an external grant is less likely to raise donations locally; however, once a grant is received, this doesn't seem to reduce donations¹⁰.

3. Allocation of NGO aid across countries

Fact 4. NGO aid complements rather than substitutes public aid (with some exceptions). Overall, there are little systematic differences between drivers of NGO aid and drivers of public channels of aid, but some differences exist when one looks at specific sources of NGO funding.

The correlation between NGO aid and public aid is an empirical regularity in most analysis. Three studies that look at the allocation of aid from individual NGOs to specific recipient countries (Koch, 2007; Koch et al. 2009; Dreher et al. 2012) find a positive effect of bilateral aid (from NGO home country to a given recipient country) both on the probability of the presence of an NGO in the same recipient country and on the amount disbursed. Moreover, Dreher et al. (2012) find that the correlation becomes stronger if NGOs are more dependent on public funding.

Usually, bilateral aid is defined as Official Development Assistance (ODA) aid. The first two papers exploit data on major NGOs based in several countries, while the third exploits a large dataset on Swiss NGOs. In all the three papers, the authors exploit the information on the allocation of both NGOs' own resources and public funds channeled through NGOs. This is one of the key differences with an earlier study that finds evidence running in the opposite direction: Nancy and Yoncheva (2006) find no correlation between the flow of aid of the European Commission channeled through NGOs and the European Commission's official aid. Another characteristic of this earlier study is that the data used is the aggregate (channel) level, thus not disaggregated by NGO; however, it contains a longitudinal dimension.

The sets of variables that are commonly considered as determinants of aid are indicators of need¹¹ of the recipient countries, indicators of good governance, indicators of political proximity with donors¹² and of their economic interests¹³, and measures of "common background" (usually, colonial legacy or common religion). The two main hypotheses that the empirical literature tries to verify are: (i) NGOs follow recipients' needs more than the ODA does, and (ii) NGOs have a comparative advantage in difficult institutional environments. The empirical literature finds little support for either hypothesis. It thus seems that NGOs follow beneficiaries' needs (Dreher et al, 2012; Koch et al. 2009; Nancy and Yoncheva, 2006) but not more than the ODA does (Nunnenkamp and Ohler, 2011; Nunnenkamp et al. 2009). Moreover, this relationship is sensitive to the use of alternative measures: in Dreher et al. (2010), NGO aid doesn't decrease with GDP, but responds to poverty headcount. Koch et al. (2009) find mixed evidence that NGOs select beneficiary countries because of poverty, but find an effect of poverty on the amount disbursed. In the

descriptive analysis of Koch (2007) on a sample of large NGOs based in the U.S., Germany, Netherlands and Norway, the author finds that most aid (self-reported by NGOs) in per capita terms goes to “top priority” countries, as defined by the UNDP¹⁴. Behind the aggregate figure, nevertheless, certain key differences should be highlighted: a non-priority country in Latin America receives far more funding than a top-priority country in North Africa or South Asia, for example. In general, NGO aid seems to be “well-targeted” in some regions (East Asia, Pacific and, to some extent, Africa), but not in others.

Moreover, NGOs do not seem to have a comparative advantage in difficult institutional environments. Some studies find no or positive effect of the governance indicators on NGO presence (Dreher et al., 2012; Koch et al. 2009; Nunnenkamp et al. 2009, Dreher et al, 2010, Nancy and Yoncheva, 2006, Nunnenkamp and Ohler, 2011). Contrarily, Koch (2007), using data from 22 major NGOs based in different countries finds evidence of a higher presence of NGOs in poorly governed countries; however, there seems to be no difference with respect to bilateral public aid allocation (which is also higher in countries with poor governance indicators).

Another potential driver of aid is economic interests of backdonors. These are usually measured by the share of the recipient country in the total export of donor country, and, sometimes, by the natural resource endowment of the recipient country. Here, empirical evidence shows that for all aid channels, these factors don’t seem to play a major role in aid allocation across recipient countries.

Overall, all the three channels (bilateral aid, public funds channeled through NGOs, and NGO own funds) seem to follow recipients’ needs. However, the German case displays an interesting characteristic: the strongest correlation with GDP is shown by public funds channeled through NGOs (both in comparison with bilateral aid and NGO own funds). Both in Germany and in Switzerland, public funds channeled through NGOs tend to go to better governed countries, whereas bilateral aid seems to be unaffected by the quality of governance. In the same contexts, NGO own funds are either not affected or positively affected by governance indicators, but less than public contributions to NGOs. This is sometimes rationalized by publicly-financed NGOs’ need to direct their interventions to “easier” contexts, in order to maximize the probability of success and therefore the probability of refinancing (Fruttero and Gauri, 2005).

Concerning political proximity between the recipient and the donor country, different patterns by the aid channel emerge. In most cases, one finds a positive correlation with bilateral aid. For public funds channeled through NGOs, the results are mixed: some authors find that there is a negative correlation (thus claiming that donors prefer to interact with “less friendly” countries through NGOs; e.g. Nunnenkamp et al. 2009). For the NGO own funds, the evidence is also mixed, but provides support for a positive relationship. Whereas Dreher et al. (2010) find no correlation, Koch et al. (2009) find that political proximity correlates with the presence of NGO in a given country, and Nunnenkamp and Ohler (2011) find that political proximity correlates with the amount of aid disbursed by NGOs’ own funds.

Fact 5. NGOs cluster: both across and within beneficiary countries, NGOs follow other NGOs.

There is strong evidence that an NGO is more likely to intervene where other NGOs already do. This seems to hold concerning either NGO location across recipient countries, or the location choices within each country.

With regards to the first pattern, the studies typically look at the effect of the presence of other NGOs on the spatial allocation choice of projects by a given NGO. These studies find a positive relationship. Koch et al. (2009) find a positive correlation between the number of NGOs and the amount of NGO aid going to a given country, within the above-mentioned sample of large NGOs based in several countries. Dreher et al. (2012) also find a positive correlation, in the case of Swiss NGOs.

A different measure of concentration is used by Koch (2007), with similar conclusions. He finds that the Gini index constructed on the NGO aid provided by the aforementioned sample of large organizations indicates that the NGO aid is quite concentrated (the 80 per cent of people with lowest amount of aid get only 20 per cent of the total). There is some heterogeneity among donors: Norwegian NGOs tend to be more concentrated than, in decreasing order, German, Dutch, and American NGOs. The author also notes that this clustering effect increases the donor darling/donor orphan divide.

This pattern of NGO clustering also emerges when one looks at NGO location choices within a single recipient country (one consequence of this clustering is a wasteful duplication of projects and resources). One of the rare studies on this issue is Fruttero and Gauri (2005). The authors analyze the NGO sector in Bangladesh and argue that NGOs face incentives to locate in areas where other NGOs already have established their programs. They distinguish between “brand” NGOs, whose reputation is well-established and “non-brand” NGOs. A non-brand NGO tends to avoid locating where other NGOs are already implementing the same kind of programs (while such pattern does not emerge for the brand NGOs). The authors argue that the non-brand NGOs need to make their specificity visible to donors and therefore try to avoid overlapping with other NGOs, while well-established NGOs do not face this concern.

Another aspect related to clustering is the tendency of international NGOs to compete for funding the same local NGOs, for reasons highlighted by Fowler (1991) and discussed below. Moore and Stewart (2000), speaking of the relationship between international donors and local NGOs, state: “partly because they lack criteria to judge NGOs, donors tend to adopt what is for them individually a rational rule of thumb: do what other donors are doing” (p. 82).

4. The relationship with the beneficiaries

Fact 6. The evidence of the impact on beneficiaries is mixed, both on outcomes and targeting. NGOs (Northern and Southern) do not seem to target the poorest communities better than other aid channels.

The impact of NGO projects is inherently difficult to measure. This is partly because of the nature of the public goods provided, whose quality is difficult to observe. Several recent empirical results are nevertheless quite interesting. As reported by Werker and Ahmed (2008), some evaluation analysis have been carried out using randomized control trials (RCTs) regarding NGO-implemented projects. For instance, Kremer et al. (2002), Kremer (2003), and Banerjee et al. (2007) find positive effects of NGO projects on educational outcomes; however, as stressed by Duflo and Kremer (2005), some other evaluations find no effect: the evidence on quantitatively measured outcomes does not provide an unambiguous answer with regards to the ability of NGOs to effectively address the development issue they are aiming at.

A more specific question, raised by Edwards and Hulme (1996), is whether NGOs are more effective service providers than governments. The authors conclude that there is no empirical study that demonstrates a general case that NGO provision is cheaper than the public one (Tendler, 1983; Riddell and Robinson, 1992). Some case studies nevertheless claim a greater cost effectiveness of service provision by NGOs (Hasan, 1993) and stress that NGOs do not necessarily face a scale disadvantage (Carroll, 1992).

Regarding development, we care not only about how much, but how the public goods are provided. Thus, another key question regarding the impact of NGOs on beneficiaries is whether NGOs are able to mobilize participation and to trigger positive bottom-up processes. The study by Bano (2008) in Pakistan finds that NGOs that are embedded in the aid value chain are less able to mobilize members than NGOs that are disconnected, since the organizational aims of the former types are determined by the development project and actual beneficiaries are sought *ex post* to match the requirements of the project (see also the discussion in section 4.3).

Mansuri and Rao (2012a, 2012b) review the empirical evidence on participatory projects implemented by aid agencies and focus on the possibility to induce participation by a bureaucracy-like organizations. These participatory projects are often implemented via partnerships with local NGOs or grassroots organizations (frequently called CBO, community-based organizations), which may be member-oriented, such as cooperatives, or public-good providers. The studies surveyed by the authors find evidence of a positive effect of community engagement on infrastructure-like projects with respect to “top down” programs, but this holds true only in cases where the implementing agency is strongly present and provides oversight during construction and supports training and maintenance activities.

Concerning health projects, the results of randomized evaluations show that community participation alone is insufficient to improve health outcomes, but may be beneficial when projects also invest in training health personnel or in upgrading health facilities. Community participation can account partially for health improvements obtained by some projects, but most successful programs seem nevertheless to be implemented by local governments when these are downwardly accountable; instead, devolving programs to NGOs has proven less successful.

Overall, Mansuri and Rao suggest that induced participatory interventions work best when supported by a responsive government: local participation increases, rather than diminishes, the need for strong institutions. The authors conclude that the image of local communities as having a “ready-to-use” stock of social capital is often naive and misleading.

A common assumption is that NGOs are more able to target the poorest communities. As we have discussed previously, there is no empirical confirmation of this hypothesis when comparing aggregate data on aid allocation of NGOs and of ODA. The same evidence is confirmed when looking at micro data and case studies on the location choices and targeting of NGOs in developing countries (Riddell and Robinson, 1992; Edwards and Hulme, 1996; Fruttero and Gauri, 2005). Barr et al. (2005) claim that Ugandan NGOs seek to target the poorest, but not the most isolated communities.

Financial dependence of both local and international NGOs induces these actors to prove their success in order to get refinanced. The probability for this to happen is maximized if the NGO intervene in “easier” contexts, both in terms of higher wealth and better governance (Fruttero and Gauri, 2005). Another case study that finds the same result, even though for different reasons is Gauri and Galef (2005) on Bangladeshi microfinance NGOs: the employees of these organizations respond to incentives provided, and thus tend to maximize the size of portfolio by targeting richer villages. Bebbington (2005), analyzing programs in Peru, argues that the choice to scale the development intervention at the municipality-level instead to the regional level, and the focus on “productive development” rather than on a more “political” approach, led to targeting wealthier farmers, who self-select in the project. The growing demand on the part of donors to demonstrate results in poverty reduction has pushed NGOs to target only a few households that are generally relatively wealthier, or to strongly differentiate the activities for the relatively richer beneficiaries (productive activities) from those for the relatively poorer ones (social activities).

Baird et al. (2011) find that donors’ funds are regressive, since the access to the application procedure is biased in favor of the wealthiest. The main reasons of this bias are the greater access to information and lower search costs faced by richer agents. Moreover, understanding the procedures required to access the aid value chain and the preferences of the donors are the skills that richer people possess disproportionately more. Mansuri and Rao (2012a) raise the same issue for participatory projects: those who participate in civic activities tend to be relatively wealthier and more politically connected than non-participants, and this is reflected then on the allocation choices of the project benefits. Often the poor, regardless of the propensity to participate, benefit less from the project than the rich. The authors underline that when evaluating the impact in terms of income or savings of some participatory programs, one finds sustainable positive outcomes only for subgroups that are not the main target (e.g. the most educated beneficiaries). The same authors in their later work (Mansuri and Rao, 2012b) highlight that co-financing, which is widely demanded in participatory projects, tends to exclude the poorest, mainly when individuals or groups self-select into projects. This resembles the findings of Banerjee et al.

(2013) on the impact of access to microfinance (in Hyderabad, India): in terms of increased profits, the access to microfinance seems to help most the already existing businesses and the relatively wealthier households, whereas there is no evidence of positive effects (not even in the long run) on the average or the poorer households. When looking at the participation in grassroots organizations, the picture is often similar: one frequently finds empirical studies that underline elitism and lack of mobilization of the poorest (Neubert, 1996; Arcand and Fafchamps, 2012). Arcand and Fafchamps (2012), for example, find that the size of landholdings and the ties with village authorities increase the probability of being part of a community-based organization in Senegal and Burkina Faso. This has an implication for aid allocation: if donors (including Northern NGOs) “enter” in the field by means of a partnership with a local organization (that helps lowering the knowledge gap, reaching groups instead of individuals, etc.), this may divert the targeting of donors’ funds away from the poorest beneficiaries that lacked the social capital or the resources to pool in order to be part of a local organization and towards the relatively better-off. This allows to distinguish a form of “passive” elite capture – when the wealthier are more likely to create associations (for reasons unrelated to aid) and, at the same time, when aid goes through associations – from the intentional form of elite capture, i.e. when the rich undertake deliberate actions to capture funds coming from the North.

Fact 7. The dependence on donors’ funds of both international and local NGOs has several undesirable consequences. The supply-side bias emerges. Accountability is upward, as donors have the power to shape NGO incentives. NGOs face the need to produce visible and measurable outputs, reflecting the “bureaucratization” of the relationship between Northern and Southern NGOs.

There is substantial qualitative evidence that the dependence on donors’ funds biases the actions that NGOs undertake. This applies both to international NGOs that depend on external financing and to local Southern NGOs or self-help groups that are in a partnership with an international NGO that provides funding. Werker and Ahmed (2008) indeed underline that beneficiaries have a weakened ability to punish and reward NGOs, while the only market force to shape NGOs’ incentives are the rules set by donors (on upward accountability, see also Moore and Stewart, 2000; Easterly 2002; and Ebrahim, 2003). As argued by Laurent (1998), with reference to the Mossi villages in Burkina Faso, “Confronted with the hegemonic ‘project’ of the donor, the local population, for fear of losing the aid offer, prefer to remain silent about their practices and aspirations” (p. 225).

NGO choices are likely to be driven by the need of assuring refinancing, rather than by the needs of beneficiaries. Fruttero and Gauri (2005) propose a principal-agent model of NGO location decisions, where NGOs act strategically with respect to donors that react to perceived success or failures according to measurable results. This implies avoiding locating in the neediest communities (a prediction confirmed by the empirical analysis of the authors) and in difficult institutional environments, as we have discussed above. Furthermore, Ebrahim (2003) argues that the evaluation techniques punishing failure with

the withdrawal of funds may have the negative consequence of pushing NGOs to exaggerate success and hide failures, and this, in turn, hinders organizational learning.

Another effect of the NGO dependence on donors' funds is the need to produce measurable and standardized output. There is evidence of a potential conflict between short-term requirements of donors' standards and long-term needs of the beneficiaries (Fowler, 1992; Carroll, 1992; Edwards and Hulme, 1996; Ebrahim, 2003). Even though NGOs proved effective in some aspects of the ability to innovate, part of this advantage is undermined by the need to provide measurable and "logically framed" outputs (Edwards and Hulme, 1996). Bebbington (2005) cites several interviews with practitioners who state that, for fear of losing financing, NGOs tend to "repeat bureaucratic steps". Ebrahim (2003) argues that the actual practice of accountability among NGOs came to emphasize upward accountability (towards donors) rather than accountability towards beneficiaries, together with "functional" accountability (accounting for resources and short-term impact) rather than the "strategic" one (impact of the NGOs' activities on the wider environment).

This "standardized" approach to development has been strongly accused to lead to wrong portraits and interpretations of the contexts where development agencies intervene. A famous case is the critique made by Ferguson (1994) to a large World Bank program in Lesotho that aimed at connecting producers to markets, providing credit and increasing cattle trading: the analysis that was underlying this program design was of a country isolated from the market economy and relying on subsistence production. Ferguson argues that this analysis was far from reality, since Lesotho was a labor reservoir for South African mining sector, thus with a strong link with labor market and cash transactions. The misrepresentation served the function of justifying the program itself: "to move the money they have been charged with spending, development agencies prefer to opt for standardized development packages. It thus suits the agencies to portray developing countries in terms that make them suitable targets for such packages." (p.176).

NGOs are not immune to the similar critique of misrepresenting the beneficiaries' context in order to fit supply-side requirements and pre-defined ideas of "local needs": a case that is raised by Bebbington (2005) is the one of Capacitar Project in Peru, where non-agricultural livelihood strategies were disregarded, even though they were important for the local population, since "funding agencies would not have supported such a project" (p. 942). The intervention is thus shaped by the donor's view on what "poverty" is and the donor's interpretation of the local context: in the cited example, the donor describe the rural poor as fundamentally relying on agrarian incomes, disregarding the multidimensional livelihood strategies that are put in place. Another outcome of supply-side bias is the one highlighted by Aldashev and Vallino (2013) concerning environmental NGOs, in order to explain the failure of numerous participatory conservation programs: the local population may have needs that imply actions not aligned with the mission of the sponsoring NGO. This may divert the NGO's action away from the expressed needs of the population: for example, this may be the case of sustaining agricultural incomes when an NGO has the aim of increasing conservation of a natural resource (Garnett et al. 2007).

Local NGOs in recipient countries are typically in massive financial dependence from Northern donors. Ahmed (2006) studies Bangladeshi NGOs, and documents an increase in foreign funds from 120 mln USD in 1991 to 188 mln USD in 1988. The preliminary findings of Navarra and Vallino (2014) using a West African database show that more than 10 per cent in Senegal were born purely upon the initiative of an external NGO or a donor; around 60 per cent have a partnership with a Northern NGO and, among these, in 39 per cent of cases, the partnership was unsolicited by the village. NGOs receiving external funding seem to differ from those who do not rely on such funding. In the Ugandan case, Fafchamps and Owen (2009) find that the externally-funded NGOs are more integrated into international networks and are managed by more educated and well-connected leaders. This is confirmed by the fact that an NGO receives more grants when its leader is employed by another NGO. One of the problems raised in the literature is that local NGOs (or grassroots organizations) typically federate the relatively wealthier local members (Neubert, 1996; Arcand and Fafchamps, 2012; Mansuri and Rao, 2012b). This may exacerbate the difficulty of targeting the poorest in development programs.

The literature on the impact of donors' funding on performance and composition of local NGOs is rather thin. As we have discussed above, there is evidence of supply-side bias because of the refinancing need, and the resulting incentive to show successful outcomes that avoiding targeting the poorest beneficiaries. There is evidence that NGOs that are embedded in the aid value chain are less able to mobilize members. Bano (2008), in the case of civil society organizations who had support from international aid, observed that organizational aims were determined by the development project and that beneficiaries were then sought to match the requirements of the project. Navarra and Vallino (2014) find evidence of possible diverging effects of a donor intervention in the village (or partnership) according to the degree of proactivity and initiative that the local NGO displays. Similarly, Fafchamps and Owens (2009) underline the fact that many grant-receiving local NGOs are simply "empty shells" created with the purpose of attracting grants. The same observation is made by Mansuri and Rao (2012b): material payoffs coming from donors may induce people to gather into groups that often disappear when the donor-driven incentive is finished. Finally, donors' sponsorship does not seem to reduce the above-mentioned correlation between organization membership and wealth. Mansuri and Rao (2012b) underline that, in the case of participatory projects, a large injection of resources often attracts the attention of the better off, increasing the likelihood of excluding the poor.

In some cases, the dependence on donors' funds drives the specialization of NGOs and standardization of practices. Gauri and Galef (2005) illustrate a context (in Bangladesh) where NGOs tend to specialize in microfinance, following what the authors define a "franchising approach": 92 per cent of the sample provide credit services. This is due both to material incentives given to employees and to the massively influential (both for the local organizations and for donors) example of Grameen Bank.

A specific case of Southern NGO-donor relationship is the partnership between a Northern NGO and a Southern one. Northern NGOs often outsource their project implementation to Southern ones (Werker and Ahmed, 2008). The main rationale behind

this evolution is the need to fill the knowledge gap between the Northern actors and distant social contexts. Ahmad (2006) studies a large UK-based NGO handing over activities to local partners in Bangladesh and argues that the main reason for this process has been reducing costs, since the salaries paid by the Northern NGOs are much higher as compared to those of its Southern partner. Fafchamps and Owens (2009) argue that donors consider Ugandan NGOs as subcontractors (rather than as autonomous charitable organizations), and Barr et al. (2005) underline the importance of the formal screening and monitoring processes that NGOs undergo.

The relationship between the Northern and Southern NGOs has been changing in the last decades, as Bebbington (2005) illustrates using several cases in Peru. He argues that this relationship becomes more a bureaucratic one rather than rooted in solidarity and partnership-building. From his interviews, there emerges a tradeoff between the need for monitoring and evaluation (requested by the funding agencies) and the trust between international and local NGOs: “while potentially beneficial, monitoring and evaluation systems have not been much used as instruments for upward learning but more as management information tools” (p. 945). Similarly, Fowler (1991) discusses a case from Zimbabwe to highlight that relationships between Northern and Southern NGOs that were initially characterized by close solidarity are transformed by mistrust when coming to monitoring and evaluation, because of the standardized and uniform criteria that the Northern NGOs have to report to the government funding them. Ahmad (2006) argues that Northern NGOs have become “donors” in their relationship with the Southern ones, rather than true partners: the relationship is built at the project planning stage, without a process of negotiation and debate. Fowler (1991) claims that the imbalanced relationship between the two parties implies that, when needed by conflicting aims or organizational forms, the burden of adaptation is almost exclusively borne by Southern NGOs.

The same author asserts that this relationship is marked by the search for the “natural partner”: Northern NGOs look for an “ideal” Southern NGO that speaks the same “language” as it does¹⁵. This implies that Northern NGOs with similar backgrounds will end up competing with each other in order to fund the same Southern NGOs (which may be another reason for the geographical clustering of NGOs). The management of multiple partnerships is indeed a frequent issue for Southern NGOs. The search for an “ideal” partner may be, moreover, a fertile ground for the emergence of “development brokers” (Bierschenk et al., 2000).

Fact 8. The relationship between donors and beneficiaries is marked by information asymmetries and requires intermediation. Local intermediaries play a key role in managing these asymmetries. This creates room for rent seeking.

A particular aspect of supply-side bias is the adaptation of the local requests to the kind of aid and service the NGO provides, in a strategic way in order to attract funds (Tembo, 2003). Matching the local projects to the preferences of international NGOs is often the task of specific local actors that speak the language of the international partner. Platteau and

Abraham (2002) argue that the need of foreign development agencies to display rapid and visible results with little institutional infrastructure locally leads them to strongly rely on local leaders. Esman and Uphoff (1984) claim that often, the external development agency (e.g. a Northern NGO) enters into contact with the grassroots level only through these leaders.

Thus, Northern NGOs have a mediated relationship with the beneficiaries. In this regard, a wide anthropological literature underlines the role of “development brokers” (Bierschenk et al., 2000; Blundo 1995; Neubert, 1996). Brokers are defined as local social who attract and « manage » the development rents and act as local intermediaries between donors and beneficiaries. These studies have mainly been carried out in Sub-Saharan Africa, where relying on local political intermediaries dates back to the colonial power and is now embedded in State-related networks. In the phase of “aid decentralization” (Bierschenk et al., 2000), actors such as local political leaders and local NGOs took an important power in mediating the development intervention. Neubert (1996) analyses the role of these actors in Kenya and Rwanda, where the intermediation is carried out in some cases by local promoters, while in others by expatriates. These “brokers” facilitate the matching between the supply of and the demand for aid. On the one hand, they reduce information asymmetries, while on the other, they produce the representation that the donors want to see. This means that instead of a needs assessment, a special kind of negotiation process takes place with regards to the donors’ and the beneficiaries’ preferences. Sometimes, as in the case study in Bangladesh described by Ahmad (2006), the emergence of local NGOs occurs by the initiative of former field workers of international NGOs, that, through their belonging to an international organization, had gained prestige and social status.

The risk of rent-seeking behavior by development brokers in case of donor-sponsored participatory or community-driven development programs has been studied extensively. In some cases, local leaders/brokers use their mediating role to divert funds towards a specific group or distort strategically information on local needs to capture funds (Platteau et al., 2014). The basic insight is that brokers/facilitators that connect donors and beneficiaries do not simply “enable local people to speak”, but have their own interests and use their position to appropriate rents.

The elites that are in the position of capturing such rents come from various subgroups of society. Platteau and Gaspart (2003) identify three of them. The first is the local “traditional” elites in rural contexts: they exploit their dominant position at the local level to manipulate participatory methods by representing their own interests as community needs. Secondly, the urban elites create NGOs as an entrepreneurial activity that allow them to capture substantial rents. Finally, former public administrators (often downsized because of budget cuts in the public sector) play a similar role.

An important characteristic of certain elite capture cases (such as the Senegalese one reported by Platteau (2004)) is the beneficiaries’ acceptance of power abuses by leaders, as long as the beneficiaries obtain at least some gains from the project (see also Chabal and

Daloz, 1999). Rent capture is thus considered as a sort of remuneration of the leader and has, in the eyes of beneficiaries, certain legitimacy.

Which conditions favor elite capture? Platteau (2004) argues that the risk of capture is higher in more unequal communities, which may explain the negative relationship between intra-village inequality and targeting effectiveness documented by Galasso and Ravallion (2005). Other authors claim that capture is more likely if organized local communities did not exist prior to the arrival of donors (Li, 2001; Navarra and Vallino, 2014).

5. Globalization of NGOs

Fact 9. NGO are increasingly internationalized, often assuming a structure similar to multinationals and exploiting brand names, in particular for fundraising purposes.

Another key phenomenon that has emerged recently is the internationalization of major development NGOs, similar in structure to the multinational firms. Aldashev and Verdier (2009) document and analyze this phenomenon. International NGOs typically operate with headquarters located in the country where the organization was born, and affiliates located in other developed countries. The main advantage of such a structure is that it allows to exploit the “brand” created by the headquarter organization and to economize on fundraising costs in affiliate countries. Table 2, for instance, shows the number of distinct country affiliates and total revenues for some of the major international NGOs. As one can see, the most internationalized NGO in 2007, WorldVision, had 65 distinct country offices and over 2 billion USD in total revenues. Even the less internationalized ones (CARE, MSF-Doctors Without Borders) have at least 10 distinct country offices.

Figure 6 shows the evolution of this internationalization for three large NGOs (Plan International, Oxfam, and MSF). The figure indicates that whereas the opening of foreign affiliates started relatively long time ago (in the 1950s), the acceleration of NGO globalization occurred in the 1980s and 1990s.

Lindenberg and Bryant (2001) study the evolution of several international NGOs in detail, and conclude that the degree of independence that the affiliates have varies strongly from one organization to the other. For instance, WorldVision has a unitary-corporate structure, with strong centralization of decision in the headquarters, whereas Oxfam and MSF are more similar to coalitions of independent affiliate bodies.

Table 2. Key characteristics of several global NGOs

(Source: Aldashev and Verdier, 2009)

Table 1

Data on some of the main global NGOs.

Source: Lindenberg and Bryant (2001), Karajkov (2007), www.plan-international.org.

Organization name	Year of foundation	Number of distinct country offices	Total revenues, 2006, US\$ mln	Main field of operation
PLAN International	1937	17	595 ^a	Children's rights
Save the Children	1919	26	863	Children's rights
Oxfam International	1942	13	528	Poverty relief
CARE	1945	10	624	Poverty relief
World Vision	1950	65	2100	Religious charity
Medecins Sans Frontieres (MSF)	1971	19	568	Medical intervention in distress

^a 2007.

Figure 6. Evolution of the internationalization of three large NGOs (Plan International, Oxfam, and MSF)

(Source: Aldashev and Verdier, 2009)

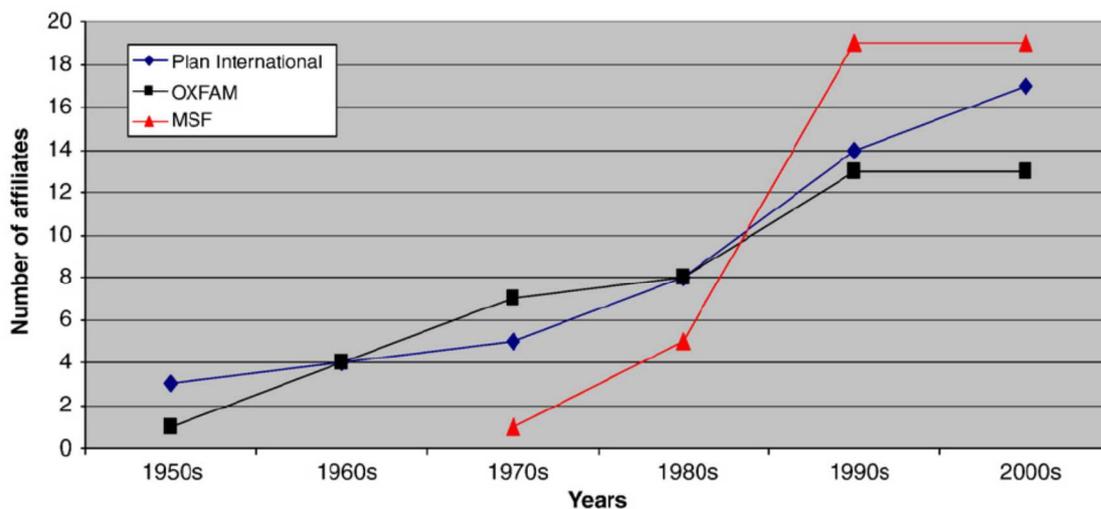


Fig. 1. The globalization timeline of some major NGOs.

Conclusion

The facts highlighted above suggest several promising directions of research on the economics of development NGOs, both from theoretical and empirical perspectives.

On the theoretical front, we lack models clarifying which economic mechanisms can explain the above set of facts. Our discussion of these facts indicates that such models should integrate several fundamental features of the development NGO sector. First of all, given the large number of NGOs that compete with each other in multiple dimensions, any plausible model of the NGO sector should go beyond a single-organization analysis and should endogenize the market structure of the sector. Secondly, the financing structure of NGOs implies a key disconnection between those who pay for the services provided by an NGO and those who benefit from them; thus, a good model should include the intermediation role of the NGOs and cannot avoid addressing the problem of agency (i.e. informational asymmetries between donors and NGOs). This also implies that such models should take into account the strategic interaction between NGOs and donors, in particular, the incentives that NGOs face to get financed which might divert them from their core activities. Finally, theoretical analyses of the functioning of the sector should provide answers to normative questions, such as welfare trade-offs arising from delegating implementation of development projects to NGOs.

From the empirical perspective, one of the main unresolved problems is constructing appropriate measure of performance of NGOs. Clearly, measures that are solely based on inputs (e.g. how much money is spent in a given project) are unsatisfactory. However, often the very nature of the projects in which NGOs are involved makes measuring output intrinsically difficult (for example, in projects aiming at empowerment of beneficiaries). This does not mean that attempts of measuring output should be abandoned, but rather that several different measures (some of which might be qualitative) should be constructed. Another fundamental empirical issue is that of estimating effect of variation in the composition of funds (e.g. expansion or contraction of public funds). Beyond the usual problems of omitted variables and reverse causality, an additional challenge in such identification is that of taking into account the fungibility of funds of an NGO: between its multiple projects, between its sources of financing (i.e. endogenous fundraising effort), and over different time periods.

In our survey, several facts are clearly missing, and this is essentially related to the absence of data in two dimensions. The first is the labor composition of the NGO sector. We do not know well who works in the NGO sector (i.e. skills and socio-economic characteristics of NGO workers and their outside options, and the motivation of development NGO workers) and what are the characteristics of individuals that become NGO “entrepreneurs” (i.e. those who found and/or lead these organizations). Secondly, given that a huge majority of NGO projects involve partnerships between Northern NGOs (that specialize in fundraising and informing the public about the development issues) and Southern NGOs (local implementing partners), we need datasets that provide matched information on the characteristics and behavior of both Northern and Southern partners, as well as on the matching between the two sides.

The promise of the NGO sector in being a more appropriate development cooperation channel (as compared to bilateral or multilateral governmental aid) – in terms of targeting, knowledge of the local context, searching for innovative and flexible solutions – cannot be taken for granted. Both partisan supporters of the NGO sector and those who dismiss them aprioristically (as being too small, too amateur, or too funding-dependent) are wrong. For a proper understanding of the advantages and limitations of this burgeoning sector of fundamental development players, we need a rigorous analytical approach that discovers the key potential mechanisms of the sector and tests them against carefully-built data from a large set of different contexts.

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Endnotes

¹ Aid flows that qualify as ODA must comply with certain requirements set by the OECD: they have to be directed to countries and territories on the DAC list of ODA recipients and to multilateral development institutions and have to be “provided by official agencies, including state and local governments, or by their executive agency”, “administered with the promotion of the economic development and welfare of developing countries as its main objective”, being concessional in character, and conveying a grant element of at least 25 per cent (calculated at a discount rate of 10 per cent) (OECD, 2008).

² This is also documented by Atkinson et al. (2012) on the UK data and can be ascribed to the massive campaigns for the Ethiopian famine relief (LiveAid).

³ We look at the Creditor Reporting System of the OECD, a database of individual development activities. Here, when a project intervention is carried on by an NGO under mandate of the public authority, such a project is considered as aid channelled through NGOs.

⁴ According to Barro and McCleary (2007), in 2002 41 per cent of US overseas development funds were channelled through NGOs. We believe that our data more properly identify the share of public funds going to NGOs. It would be thus more appropriate to say that 0.41 is the total flow of aid through private voluntary organizations divided by the US Official Development Assistance (USAID, 2002). Note that the former amount is, nevertheless, not included in the latter, since it records the whole amount of NGOs own funds.

⁵ The efficiency price is defined as the inverse of the share of service expenditures (total expenditures less fundraising and administrative expenses) in total expenditures and aims to capture the relative magnitude of costs different from output delivery.

⁶ Kiva is a platform that connects individual lenders and “field partners”, i.e. microfinance NGOs that promote entrepreneurial projects of borrowers in developing countries.

⁷ The author defines human service workforce as the set of jobs dealing with low-income children, juvenile justice, employment and training, child welfare and childcare.

⁸ One should remember that, as highlighted by Andreoni and Payne (2003), non-profit organizations strongly differ with regards to their funding composition: arts charities tend to rely more on own funds, while social-service charities tend to be more dependent on public grants.

⁹ The dataset includes 22 large NGOs based in Netherlands, Germany, Norway, and the U.S.

¹⁰ Their instrumental-variable estimation shows that grant recipients raise less donations locally; however, using NGO fixed effects, the evidence of crowding out disappears.

¹¹ Measures at the level of the recipient country are: GDP, HDI, poverty headcount, Gini coefficient, and the extent to which the country has been affected by natural disasters.

¹² The measure most commonly used is the voting in the UN General Assembly.

¹³ E.g., share of the recipient country in the total export of donor country, natural resource endowment of the recipient country.

¹⁴ Depending on the level of human poverty and progress towards MDGs.

¹⁵ This is similar to the search process that mission-oriented firms adopt when looking for motivated employees in the model by Besley and Ghatak (2005).

